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NOTE

From:	General Secretariat of the Council
To:	Permanenet Representatives Committee (Part 2) / Council
Subject:	Draft Council conclusions on a Capital Markets Union

Delegations will find attached the draft Council conclusions on a Capital Markets Union, as prepared by the Economic and Financial Committee.

Draft Council conclusions on a Capital Markets Union

The Council:

1. RECALLS its Conclusions of 9 December 2014 on Finance for Growth and the Long-term Financing of the European Economy[1] in order to further build on the policy targets and principles contained therein;
2. RECOGNISES that although EU capital markets have expanded over recent decades, they remain fragmented and less developed as compared to those in some other comparable jurisdictions, in particular in certain market segments crucial for jobs and growth such as securitisation and venture capital;
3. CONSIDERS that more developed and more integrated capital markets could unlock investment for companies and infrastructure projects, attract foreign investment, contribute to growth and job creation and make the financial system more efficient, robust and resilient to shocks;
4. WELCOMES therefore the Commission's initiative of building a Capital Markets Union (CMU) and the wide range of issues being considered in this context;
5. SUPPORTS the Commission's step-by-step approach based on a thorough analysis and consultation of all the key stakeholders, including market participants, which combines long-term ambition, using the CMU as a lever for growth and investment, with key short term concrete actions producing visible, early impact to gather momentum;

[1] Doc. 16183/14 EF 330 ECOFIN 1113 + ADD1

6. AGREES on the need to broaden and diversify sources of financing for European companies, especially SMEs, bearing in mind the need to create effective conditions for healthy competition between banks and non-banks in the European financial system and RECOGNISES in particular the need to strengthen the equity culture in the EU and to encourage long-term investment in companies, rather than rely excessively on debt;
7. STRESSES, given the importance of SMEs for the creation of new jobs and growth, the importance of focusing on improving bank financing as well as on developing non-bank financing opportunities for all SMEs from smaller or larger financial markets, in order for such companies to be offered a wider range of financing choices, giving also particular attention to high-growth potential SMEs;
8. RECALLS the importance of increasing retail investment and ensuring robust investor and consumer protection, by combining, with a focus on synergy and efficiency, actions by the national supervisory authorities and by the ESAs in the exercise of their existing mandates, when developing the CMU project;
9. STRESSES that the principles of subsidiarity and proportionality should be respected in any future related initiative and that financial market stability should not be put at risk;
10. CONSIDERS that the CMU should be seen as complementary to bank financing as banks will continue to play a key role in financing the economy and should take into account the role of institutional investors, including insurance companies on relevant markets, in financing European companies, and RECOGNISES the need to consider approaches enhancing access to intermediated financing for companies as a necessary complement to the CMU;

11. STRESSES that the CMU should encompass all 28 Member States, while taking account of the various degrees of development of capital markets and their different levels of size and integration, and AGREES that, notwithstanding such differentiations, the benefits of integrated capital markets should be reaped throughout the entire Union, by both those with large existing capital markets and those with smaller or/ less developed ones. The CMU should make it easier for both larger and smaller companies to obtain access to capital on more attractive terms, while also focusing on the specific needs of innovative, high growth potential SMEs;

12. ACKNOWLEDGES that well-functioning capital markets can ensure a better and more uniform transmission of monetary policy as deeper cross-border capital markets allow for better private market risk sharing for all 28 Member States and in particular the euro area;

13. CONSIDERS that deepening the single market, and promoting long-term investment, as well as improving access to finance should be one of the main objectives of the CMU and in this context SUPPORTS the process of promoting ESG (Environment, Social and Governance) investment; RECOGNISES in addition that significant investments in infrastructure need to be made in the EU to support competitiveness and growth, which requires long-term finance from different sources, including institutional investors; HIGHLIGHTS in both these respects the important catalysing role of the new European Fund for Strategic Investments (EFSI) and of the European Long-Term Investment Funds (ELTIFs);

14. STRESSES that work on the CMU should take into account international work to understand and if necessary address financial stability risks in capital markets, as well as any consistency issues; and RECALLS the need to ensure that Europe's capital markets can compete on a fair basis with other economic areas, based on sound financial regulation; and URGES to further address barriers to the free movement of capital;

Short-term priorities for action

15. RECOGNISES that securitisation can provide an effective mechanism to transfer risk from bank lenders to non-bank operators, thus increasing banks' capacity to lend, but also to channel non-bank financing towards the working capital of companies and CALLS on the Commission to propose a framework for simple, transparent and standardised securitisation, building on the numerous ongoing initiatives at European and international levels, as a matter of priority at the latest by the end of 2015, including a clear overarching definition of such securitisations, ensuring consistency of the common key aspects across different sectoral legislations, , and a sound mechanism for verifying qualifying securitisations, and areas where these deserve a preferential treatment, as well as an appropriate calibration thereof. Any preferential treatment should not endanger financial stability;
16. NOTES the Commission's intention to come forward with pragmatic solutions to increase venture capital, crowdfunding, as well as other forms of alternative finance that may be attractive sources of funding for smaller firms and high-growth companies while at the same time preserving investor protection;
17. CONSIDERS that easily available, reliable and comparable credit information is important for improving access to finance, and diversifying investor base, for SMEs, so as to allow proper due diligence by investors and avoid overreliance on ratings; therefore STRESSES the need to enhance and streamline access to credit information while keeping the provision of data on a voluntary basis where justified for certain SMEs, and minimising the burdens on SMEs in the EU and CALLS for prioritising further analysis, to achieve that whilst recognising the different market structures for providing access to credit data throughout the Union without placing additional burdens on SMEs;

18. Broadly SUPPORTS the work underway to identify existing barriers to the free movement of capital, and to remove the most damaging ones, noting that a roadmap will be developed together with Member States;
19. RECOGNISES the potential of private placements and mini-bonds for corporate lending including, where relevant, SMEs financing in the EU and LOOKS FORWARD to the results of the Commission's analysis of existing practices, risks and possible future actions, as well as to the ongoing private sector's initiatives undertaken in view of the standardisation of practices and documentation for private placements;
20. CONFIRMS the need to simplify and streamline the process for preparing and, where appropriate, approving the prospectus, ensuring an appropriate balance between achieving adequate investor protection and confidence and minimising the burden on businesses; NOTES the importance of this issue for the offering on public markets of securities by companies and in particular the need to improve SMEs' transparent and efficient access to capital markets and to reduce the burden on SMEs, and LOOKS FORWARD to considering the legislative proposal that is being prepared by the Commission;

Medium to long-term action

21. STRESSES that concerning medium and long term actions, an ambitious approach is needed, requiring work to be started immediately in order to garner evidence-based analysis, on which a prioritisation can be made, also taking into account potential interactions between individual initiatives, and their interaction with existing legislation;

22. RECOGNISES that achieving a CMU will require a broad range of initiatives aimed at stimulating and matching the supply-side and the demand-side of finance. In order to ensure cross-sectorial consistency, work to prepare the CMU should carefully evaluate the cumulative effect of legislative changes since the financial crisis and assess the need for proportionate measures to:

- enhance liquidity and market making, especially on asset classes where liquidity has recently diminished; and,

- improve cross-border investment in corporate debt and equity securities;

- increase investment capacity in the Union, where necessary through appropriate adjustments of the prudential framework for key finance providers, such as insurance companies, while taking due account of financial stability considerations;

- remove barriers to marketing and growth of investment funds and their operation cross border, in recognition that such funds are a significant source of finance in the EU;

23. CONSIDERS that improving 'financial ecosystems' throughout the Union, in particular through promoting entrepreneurship, improving corporate governance practices, diversifying the sources of financing and enhancing financial literacy is of key importance;

24. CONSIDERS that a fully functioning CMU should rely on an efficient, effective and stable investment chain supported by robust market infrastructures and foster a well-functioning cross border flow of collateral;

25. CONSIDERS that a long-term structural policy agenda should go beyond initiatives in the field of financial services and that building an effective CMU will also require further analysis of possible barriers in related areas such as insolvency, securities and company law whilst also having regard to the respective tax treatments of equity and debt financing with a view to fostering neutrality between the fiscal treatment of these, taking into account the importance of national competences in these areas; NOTES the importance of undertaking working on addressing these barriers to ensure the long-term success of CMU; and, STRESSES the need to start technical work in these areas;

26. Recalling the Council Conclusions on the ESFS Review from 7 November 2014[2], STRESSES that the European Supervisory Authorities should make full use of their existing mandates to enhance supervisory convergence and ensure coherent application of financial regulation across the Union as well as effective market oversight and investor protection while observing Level 1 directions, and AGREES that this will contribute to making CMU a success; ACKNOWLEDGES that the functioning of the ESFS will be reviewed in the future, but invites the ESAs to bring to the attention of the Council any issues that in the meanwhile hamper their ability to fulfil their existing mandates, so that the Council can act appropriately to support the ESAs fulfilling their existing mandates; whilst taking the development of CMU into account;

27. NOTES the need to ensure adequate supervision of relevant segments of the capital markets and to strengthen the macro-prudential toolkit beyond banking, and specifically into the areas of investment, securities and shadow banking, in order to reap the potential benefits from financial integration through the development of the CMU, without raising concerns for financial stability;

[2] Doc. 14681/14 EF 275 ECOFIN 968 SURE 36 UEM 358

Next steps

28. INVITES the Commission to consider the full range of possible actions, taking into account the outcome of its consultation process, in order to identify the most effective and expedient manner to improve the functioning and integration of EU capital markets and ENCOURAGES it to elaborate by September 2015 a comprehensive, targeted and ambitious action plan for building the CMU;
29. STRESSES that this action plan should take into account the specific features and needs of SMEs and the various potential impacts of the CMU on EU capital markets, including the smaller and less-developed ones;
30. EMPHASISES that the action plan should be grounded on a roadmap with clear prioritisation of actions and a timeline with clear and realistic milestones, and that policy interventions should be adjusted in response to ongoing monitoring before, during and after implementation to address any unintended consequences on the basis of ex-ante policy indicators and ex-post impact assessments;
31. LOOKS FORWARD to considering the Commission action plan with a view to identifying a clear set of priorities and an initial roadmap for building the CMU.